Program Guide for Participants

Program Overview

Civil Service Tax Sheltered Annuities (CSTSA) provides employees the opportunity to invest in an Internal Revenue Code 403(b) plan, commonly referred to as a tax-sheltered annuity or TSA.

The program is voluntary and exists solely to benefit employee participants.

Employees who want to participate in the CSTSA designate a portion of their salary to contribute on a monthly basis.

Contributions are pre-taxed and are automatically deducted from the payroll warrant. State and Federal income taxes are then calculated on remaining pay.

Pre-tax contributions lower taxable income. This benefits all participants and can even allow some to invest and retain their regular amount of take home pay.

Contributions to the CSTSA are not taxed until money is withdrawn.

Benefits Of Participation

As a plan participant, you will benefit in many ways:

- REDUCE YOUR TAXABLE INCOME WHILE SAVING PRE-TAX DOLLARS.
- GAIN INTEREST ON YOUR TAX-DEFERRED INVESTMENT.
- SELECT THE INVESTMENT COMPANIES AND FUNDS YOU WANT TO PARTICIPATE IN.
- ACCESS YOUR MONEY THOUGH LOANS AND WITHDRAWALS WHEN NECESSARY.
- HAVE CONTRIBUTIONS AUTOMATICALLY DEDUCTED FROM YOUR PAYROLL WARRANT.

Administration

The State Controller’s Office administers the program in conjunction with participating state agencies and investment companies. See the “Company listing” for a detailed list of all participating agencies.

Eligibility

Employees working directly, or indirectly, for a public school or educational organization are eligible.

To qualify as an educational organization, an agency must maintain a regular faculty and curriculum, and have a regularly enrolled body of students at the location where it carries on educational activities.

Both academic and non-academic employees who support these programs are eligible. Examples of eligible non-academic staff include janitorial, custodial and clerical employees. They perform services for educational agencies and are therefore eligible.

Ultimate determination is made by a company representative with the assistance of you and your Employer.

Eligible employees include:

- Department of Education employees.
- Employees in bargaining units 03 and 21.
- Employees in all bargaining units whose position supports the operation of public education programs.

All participants must work at least 20 hours per week.

What are Tax-Sheltered Annuities?

An annuity contract is made between an employee and an investment company, which provides a way for the employee to save money during working years and receive an income for retirement. Annuities usually pay out in monthly installments, but the type of payment and the period over which annuities pay out vary according to the provisions of the individual annuity contract. All annuities provide some form of guarantee. You can invest in the following annuities and/or mutual funds through the CSTSA program:

Fixed Annuities

Fixed annuity contracts provide guaranteed income options. They are generally considered more conservative than variable annuities, but the advantage is that they are a relatively safe investment because your principal investment is guaranteed by the company.

Variable Annuities

Variable annuity contracts provide the advantages of fixed annuities with the potential returns that are available by investing your money in the stock market. The investment options that are available are referred to as either "mutual funds" or "investment portfolios" . Unlike fixed annuities with guaranteed protection against loss of principal, variable annuity principal can be at risk and subject to loss in value, but also greater gain.

Mutual Funds

A mutual fund in an investment in which your contributions are combined with a large pool of money from other investors, and the total amount is managed by a professional money manager. When an employee invests in a mutual fund, they are buying shares in the pooled assets of the fund. As the value of the fund rises or falls, the value of the shares rises or falls.

Plan Comparisons

Following is a comparison of 403(b) options in relation to 401(k) and 457 plans. The main differences are in yearly maximum deferral amounts, requirements for “early” withdrawals and plan-to-plan transfers.

403(b) TSA	401(k)Thrift	457 Deferred Comp
State teachers and employees of educational agencies.	Any state employee who meets minimum qualifications.	Any state employee who meets minimum qualifications.
Assets held by vendor.	Assets held by trust.	Assets held by trust.
$10,500/year or 25% of adjusted gross income, whichever is less.	$10,500/year or 20% of adjusted gross income, whichever is less.	$8,000/year or 25% of adjusted gross income, whichever is less.
Catch-up options and special elections are available (see Contribution Limits).	No catch-up options are available.	Catch-up options are available.
Earliest Distribution without penalty: Age 55 if retired or separated, or age 59 1/2 regardless of employment status.	Earliest Distribution without penalty: Age 55 if retired or separated, or age 59 1/2 regardless of employment status.	Earliest Distribution without penalty: No age requirement; monies payable upon separation or retirement.
Roll over to IRA or to/from another employer’s 403(b) plan.	Roll over to an IRA or to/from another employer’s 401(k) plan.	Transfer to/from another employer’s deferred compensation plan only.

Evaluate Risk Tolerance

You should determine your level of risk tolerance before committing to a specific type of investment. The following five tips are provided as a starting point for evaluating your risk tolerance. A company representative or your tax advisor should further explain your investment options.

Risk Tolerance

Generally speaking, the more you are willing to risk, the greater the potential for return on investment, which equates to more money earned.

Diversify Your Investments

Most people want high rates of return on their investments with minimum risk. Diversifying your investments will accomplish this goal as no single investment does well in every economic circumstance.

Investment Flexibility

The CSTSA program allows you to change your investment amount (once per month), stop or start deferrals, and change your investment options for future deferrals. You should also know what options a particular investment provides and be aware of any fees and/or charges (see page 8).

Define Your Strategy

Work with a company representative or your tax advisor; pick a strategy and stick with it.

Risk vs. Return

Investments have varying levels of return. When comparing investments, make sure you are comparing the return and risk levels of funds with similar investment objectives.

Investment Decisions

You'll select the company with whom you will invest your savings in your 403(b) account. A listing with company names, contact information and minimum contribution requirements is available through your Personnel Office.

CREDITWORTHINESS

If you invest in an annuity underwritten by an insurance company, consider the credit rating of that insurance company.

If you invest in fixed annuities, your contributions are included in the general asset pool of the company and invested along with other assets. Because these assets are not segregated (as they would be in a variable annuity), they are subject to the company's creditors in the event the company fails.

Credit ratings are issued by several independent ratings agencies such as:

A.M. Best—www.ambest.com
Duff and Phelp's— www.dcrco.com
Moody's—www.moodys.com
Standard & Poor's—
www.standardpoor.com

Information on company ratings can also be obtained by calling the company directly or looking up ratings at a library that has insurance ratings catalogues.

Fees and Charges

The Controller's Office requires a fee of $1.00 per month for program administration, including remitting your funds to companies.

In addition, many different company fees should be considered when selecting investment options. Higher fees are not necessarily negative; it depends on what services you are receiving for the cost and if you will actually use the services offered.

Following are examples of fees and charges typically included in 403(b) investments:

SALES CHARGES	(also called "loads") may be assessed when you initially invest in an option (a "front-end" load) or when you sell funds (a "back-end" load). These are similar to surrender charges and are usually intended to pay sales representatives commissions. Some companies offer no-load options, remember to review all fees.
SURRENDER CHARGES	may be assessed when you take a distribution from your account. If you are 55 and purchase a 7-year annuity, you cannot receive funds until age 62 unless you are willing to pay a surrender charge.
ADMINISTRATIVE FEES	are assessed, usually quarterly or annually, to offset the company's cost in maintaining your account during the period.
MORTALITY & EXPENSE CHARGES	are assessed by insurance companies to offset their risk in paying annuities.
INVESTMENT ADVISORY FEES	are charged by investment companies and paid to the investment manager of the mutual fund.

Contribution Limits

There are three separate Internal Revenue Code (IRC) sections that determine 403(b) annual contribution limits, whichever is less becomes your annual limit for a given tax year:

IRC 402(G) TAX REFORM ACT LIMIT: $10,500 (indexed for inflation in $500 increments).

IRC 415 LIMIT: $30,000 or 25% of the adjusted gross salary, whichever is less.

MAXIMUM EXCLUSION ALLOWANCE (IRC 403(b)(2)): a complex calculation that considers an employee's contributions, includible compensation or 20% of adjusted gross salary, and state service.

Catch-up Option or Special Election

You may qualify for a catch-up or special election. Options A, B and C are mutually exclusive, once you elect one, you may never elect another.

Catch-up option: Employees with 15 years of service may qualify to contribute an additional $3,000 per year, beyond the 402(g) limit, for up to 5 years or a maximum of $15,000.

Year of Separation from Service Limit (Option A): May be used once. Calculates a modified maximum exclusion allowance using only the last ten years of service.

Any Year Limit (Option B): Increases the regular IRC 415 limit by up to $4,000.

Overall Limit (Option C): Uses a special IRC 415 calculation in lieu of the regular maximum exclusion allowance.

Contribution limits for 403(b), 401(k) and 457 are interrelated. Participation in more than one plan makes your total contributions subject to the lowest maximum limit. For instance, participation in a 403(b) and 457 plan reduces your total annual contributions to $8,000 (the 457 maximum) for both plans combined.

Tax Compliance

Tax Year

The State's tax year begins with the December pay period (pay issued beginning 01/01) and ends with the November pay period (pay issued through 12/31) e.g. tax year 2000 begins December 1999 and ends November 2000.

Minimum contribution

You must contribute at least $25 a month per company. You may contribute to no more than two companies at the same time.

Maximum Contribution and 403(b) Compliance Worksheet

The 403(b) Compliance Worksheet determines your maximum contribution limit for the tax year. A copy is turned in to your personnel office, to be retained by the department for routine monitoring of employee contributions.

Who Must Complete a Worksheet

- New participants
- Participants whose contributions exceed the 402(g) limit (currently $10,500).
- Participants who contribute to more than one plan in the same tax year. For instance, if you contribute to the CSTSA program and another 403(b), 401(k) or 457.

Participants who defer more than the 402(g) limit must provide a new 403(b) Compliance Worksheet each year by Nov. 1st for every year they defer more than the 402(g) limit.

Excess Contributions

Avoid over deferrals, know your individual contribution limit and track the amount you contribute on a monthly basis. If you over contribute during any tax year, notify your personnel office immediately to discontinue your current reduction and request a refund of any excess amount.

The Controller's Office retains the right to automatically refund excess contributions. Refunds are fully taxable and become part of your gross income.

Refunds of excess contributions are not eligible for rollover. See Taxes on Distributions page 13 for more information.

Account Changes

You have the option to change your savings or investments as your financial goals change. You can:

INCREASE OR DECREASE YOUR SAVINGS

You can make changes monthly. Complete a new salary reduction agreement.

STOP SAVING THROUGH THE PLAN

Complete a salary reduction agreement canceling your current investment(s), then close your account(s) with the investment company(ies).

CHANGE YOUR INVESTMENT ELECTIONS

You may change your investment elections without changing the amount of your salary reduction. Refer to instructions provided by your company agent on making a fund transfer. Note any restrictions that apply.

You do not need to complete a new salary reduction agreement if you are not changing companies or your reduction amount.

CHANGE INVESTMENT COMPANIES

You may contribute to two companies at any one time. Consider the following if you choose to change companies:

Decide if you want to transfer your existing account balance, or have future savings invested with the new company.

Establish an account with the new company before completing a new salary reduction agreement.

Loans

You can borrow against your account as long as the investment company you've chosen offers a loan feature.

Loans must comply with Internal Revenue Code 72(p) requirements. Loans that do not meet these requirements are treated as taxable distributions and will be included in your gross income for taxation. Consult with your investment company as to loan amounts and restrictions.

Loans must be paid back in substantially equal payments that are made at least quarterly over a period not to exceed five years, unless you are using the loan to purchase a home. If you default on the loan, the investment company will consider this a distribution and the entire amount becomes taxable.

Withdrawals

Whenever you withdraw savings, determine if income or penalty taxes or surrender charges apply. The earliest you can withdrawal savings without penalty taxes is:

- Age 55 if retired or separated
- Age 59 1/2 regardless of your retirement status
- Disability
- Death

If you separate from state service, you are entitled to the value of your account. You may receive a lump sum payment; roll your account over to another 403(b) plan or Individual Retirement Account (IRA); or leave funds in the account to accumulate interest.

You may also withdraw savings in the case of demonstrated financial hardship. Withdrawals are subject to income taxes and may also be subject to penalty taxes and/or surrender charges.

Minimum Distributions

You must begin distributions upon reaching age 70 1/2 or by the April 1 following the calendar year of your retirement, whichever is later.

The amount you must receive is equal to an annuity payable over your life expectancy, or your life expectancy and that of your spouse.

Taxes on Distributions

403(b) distributions are generally taxed as ordinary income in the year they are received. Most all distributions have a mandatory federal tax applied, with the exception of direct rollovers to an IRA or another employer-sponsored 403(b) plan that accepts rollovers.

Participants requesting distributions have a responsibility to satisfy distribution rules and are responsible for any tax consequences as a result of a distribution. Please consult with a company representative and your tax advisor.

Rollovers

You can make direct or 60 day rollovers of taxable distributions from another employer-sponsored 403(b) plan as long as the company you've selected will accept the rollover. It is your responsibility, in conjunction with a company representative, to arrange for the fund transfer. As long as the funds are rolled over properly, no taxes will be withheld from the distribution, and the money will retain its tax-deferred status.

How to Enroll

Select a Company and investment product

Personnel offices will provide a listing of companies authorized to provide annuity products through the CSTSA program.

You should work with a company representative and/or consult with your tax advisor to determine which company is best suited to meet your investment needs. Request a prospectus for any investment you are seriously considering.

Establish A Company Account

Once a company has been selected, work with a company representative to establish an account. This step includes signing an agreement with the company to establish your company account. The company must provide you an account designation and/or number which in turn is provided to your personnel office.

Compliance Worksheet

A 403(b) Compliance Worksheet is required for new participants, those that plan to contribute more than the 402(g) limit (currently $10,500) or those that contribute to more than one plan.

Salary Reduction Agreement

A salary reduction agreement is a contract between the employing department and the employee. It specifies the conditions of participation in the CSTSA program. Request an agreement from your personnel office and complete it 30 days before the reduction is to be effective. Salary reductions are processed by the Controller's Office around the 10th business day of each month.

Turn In Paperwork

To enroll in the CSTSA, provide your personnel office proof of a company account, 403(b) compliance worksheet (if applicable) and salary reduction agreement.

Responsibilities

Employer

Your department will provide you with forms and program information. They will ensure that all paperwork is completed prior to your enrollment or continuance in the CSTSA program and will forward paperwork to the Controller's Office for processing.

They will monitor your salary reduction on a monthly basis and may discontinue the reduction if you have not completed a 403(b) Compliance Worksheet substantiating your reduction amount.

Investment Companies

Companies are contractually obligated to:

- Provide you with your 403(b) account designation and number.
- Ensure timely and legal distributions of your funds and rollovers to and from the company.

The company can also provide you information on their products and services within the solicitation requirements of your specific department and can assist you in making investment decisions.

Employee Participant

You must establish your 403(b) account and choose the investments in which you want to contribute.

You may need to complete a 403(b) Compliance Worksheet.

You must add, change or cancel your investment(s) by completing a new Salary Reduction Agreement.

You must know your individual contribution limit and monitor the amount you contribute on a monthly basis. You must notify your personnel office of any excess contributions.

The Controller's Office

Ensure that employees benefit from the advantages of participation in a 403(b) plan.

Provide automatic deduction of 403(b) funds from employee warrants.

Administer contracts between the State of California and individual investment companies.

Maintain a company listing and forms such as the salary reduction agreement and compliance worksheet.

Provide standardized reports to assist employers in monitoring contribution limits.

Review federal and state law affecting 403(b) plans and implement program changes as needed.

Record Keeping and Data

As a participant, you are responsible for collecting and maintaining data related to annual salary, investment history and service credit. If you are required to complete a 403(b) Compliance Worksheet, you may need to obtain the following data:

- Gross income
- Flex medical reimbursement or spending account amounts
- Service credit
- Retirement contributions
- Annual and cumulative contributions to 403(b), 401(k), 457 or other qualified pension plan
- Record of financial hardship withdrawals
- Record of loans taken from this or other investment plans

Refer to “TSA Contacts and Websites” for additional information.

KEYS TERMS

KEY TERM	EXPLANATION
COMPANY RESPRESENTATIVE	A person, usually employed by an insurance company, who is knowledgeable in annuity investments and can work with you to determine your investment needs and options.
CONTRIBUTION	The amount of money you have deducted from your paycheck for one investment option.
DEFERRALS/ DEFERRED SAVINGS	Pre-tax dollars that are deferred from your paycheck and invested in your TSA account.
DISTRIBUTION	An allocation of money from your TSA account.
EMPLOYER	A State agency that is authorized to provide 403(b) investments to employees under Government Code section 12420.2.
FINANCIAL HARDSHIP/ HARDSHIP WITHDRAWAL	A situation in which an investor has immediate or heavy financial needs such as for educational and medical expenses, or a down payment on a home to prevent foreclosure. As a result of these situations, they investor may request a hardship withdrawal or allocation of money from their TSA account.
FIXED ANNUITY	Fixed annuity contracts provide guaranteed income options. They are generally considered more conservative than variable annuities, but the advantage is that they are a relatively safe investment because your principal investment is guaranteed by the company.
IRC	Internal Revenue Code
MAXIMUM EXCLUSION ALLOWANCE (MEA)	A complex calculation that considers an employee’s contributions, includible compensation or 20% of adjusted gross salary, and state service. This calculation is performed by an investment company or tax consultant.
MINIMUM CONTRIBUTION	The least amount of money you can invest in an investment option, on a monthly basis.
MUTUAL FUND	A mutual fund in an investment in which your contributions are combined with a large pool of money from other investors, and the total amount is managed by a professional money manager. When an employee invests in a mutual fund, they are buying shares in the pooled assets of the fund. As the value of the fund rises or falls, the value of the shares rises or falls.
PARTICIPANT	A person who contributes to the Civil Service Tax-Sheltered Annuities program.

KEY TERM	EXPLANATION
PAYROLL WARRANT	Pay check.
PRE-TAX	Income or savings, before state or federal taxes are deducted.
TAX YEAR	A tax year consists of payments and deductions issued from January 1st through December 31st. The State of California's tax year begins with the December and ends with the November pay period.
TAXABLE INCOME	Wages that are subject to state and federal taxes.
TSA COMPANY OR PROVIDER	An authorized insurance or investment company that offers 403(b) investments such as tax-sheltered annuities or mutual fund custodial accounts.
VARIABLE ANNUITY	Variable annuity contracts provide the advantages of fixed annuities with the potential returns that are available by investing your money in the stock market. The investment options that are available are referred to as either "mutual funds" or "investment portfolios". Unlike fixed annuities with guaranteed protection against loss of principal, variable annuity principal can be at risk and subject to loss in value, but also greater gain.

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